Climbing the Wall of Worry

Idea In Short

Understand the wall of worry before reacting to headlines. Markets doubled twice across a decade despite relentless bad news, driven by earnings and expanding multiples. Timing exits is nearly impossible when missing the best 0.6 percent of days erases returns, so long-horizon investors stay invested and average in.

Grumpy Investors, Great Returns

An observation from 2017, revisited six years later, captures a durable market phenomenon. The S&P index stood up more than 16 percent for the year, extending a run that had doubled the broad market in five years, and one fund manager remarked that investors had never been so grumpy while making such great returns.1 That is the wall of worry: an abundance of things to fear that oddly fail to stop markets from going higher. The worry supply was genuine, from Federal Reserve tightening and hurricanes to anti-trade populism and election interference, with any news feed running a ratio of negative or useless fluff to real news around eight to one. No matter. The yearly sequence read 16 percent, 32, 13, 1 and 12, and holders of retirement accounts quietly got richer while feeling terrible.

The Update From the Future

Six years later, the index fund tracking the S&P sat at 455, more than double again, meaning the market had doubled twice in roughly a decade. The commentary writes itself: participants in the American market are invested in the most dynamic economy, innovation hub and profit-making machine in history. The doubling occurred despite eleven interest rate increases across three years that took the federal funds rate from a quarter point to the mid-fives, 500 basis points that made debt dramatically more expensive. The wall gained bricks, and the climb continued anyway.

Price Equals Earnings Times Multiple

The mechanics reward decomposition. A stock price reflects earnings, how much companies make, multiplied by the price-to-earnings (P/E) multiple, how much investors will pay per dollar of earnings. In the 2017 snapshot, both terms pushed upward. Earnings ran strong, with over 70 percent of companies beating analyst estimates in a quarter and household names setting all-time highs weekly. Explanations varied: a synchronized global recovery spanning the United States, Europe and China, or a weak dollar and excess liquidity after nearly a decade of near-zero rates. The forty-year chart of the ten-year yield supplies humbling context, because anyone claiming today's competitive landscape is harder than the 1980s must explain away predecessors who cleared 10-to-15 percent hurdle rates while the modern generation faced 2 to 3.

The multiple term expanded too. Research from market strategist Ed Yardeni illustrates the pattern: P/E multiples widen when interest rates are low, reducing competition for investment dollars, and when inflation is low, raising the quality of earnings.2 Against an eighty-year median multiple of about 15, the market then traded near 21, expensive by history and explicable by conditions.

What the Decomposition Warns

The earnings-times-multiple frame also carries the sober half of the message. A market trading at 21 times earnings against an 80-year median of 15 leaves less room for multiple expansion, so future returns lean harder on earnings growth alone. Rising rates compress multiples mechanically, which is exactly the brick the later rate cycle threw at the wall, and the market climbed anyway because earnings carried the load. Investors who understand which term is doing the work react more calmly to both euphoria and panic, since a multiple-driven rally deserves more suspicion than an earnings-driven one. The frame does not predict. It disciplines interpretation, which is most of what a long-term investor needs.

The Timing Trap

Whether to buy at such levels is a personal question, and this is the farthest thing from investment advice, so consult a financial adviser. The framework that helps is time horizon. For someone decades from penalty-free retirement withdrawals, being a net buyer of equities means strong stocks going on sale is good news rather than bad. The statistical case against timing is brutal. Studies cited by Tony Robbins in his money book found the American market's long-run compound annual growth rate near 8.2 percent, respectable on its own, with a catch: missing the thirty best trading days, about 0.6 percent of 2,400 sessions, flipped the return negative. Nobody reliably identifies the best 0.6 percent of days in advance, and the days cluster perversely near the scariest moments, which is exactly when timers are out of the market.

The Behavioral Trap Underneath

The wall of worry persists because it exploits a real cognitive asymmetry. Negative news is vivid, specific and urgent, while the forces driving markets higher, productivity, earnings compounding and innovation, are diffuse and boring. Loss aversion then does the damage, since the pain of imagined losses outweighs the pleasure of equivalent gains, pushing investors toward the exits precisely when exits cost most. The professional countermeasures are structural rather than heroic. Automate contributions so no decision point exists for fear to hijack. Review portfolios on a calendar, not on headlines. Write an investment policy in calm times and consult it in loud ones. And treat the urge to act on news as a signal to re-read the missing-thirty-days arithmetic, because the urge is precisely what that statistic prices. Temperament can be engineered, which is fortunate, since it rarely comes naturally.

Staying In as Strategy

The practical posture follows: for the young and those who can afford, and even benefit from, volatility, staying invested and dollar-cost averaging converts the wall of worry from an enemy into a metronome.[3] Regular purchases through grumpiness buy more shares when prices dip and fewer when they run, and the investor's job reduces to not interrupting the compounding. Net-net, stocks ground higher through crazy political talk, foreign threats, disasters and monetary tightening, and the long-haul investors who kept averaging expect to check the results twenty or thirty years later. The wall of worry never runs out of bricks. Historically, the climbers have still reached higher ground, and the lesson is temperament, not prediction.

- 1S&P 500
- 2Yardeni Research
- 3Dollar-cost averaging

Summary

The wall of worry describes markets grinding higher through relentless negativity. Price equals earnings times multiple, both fueled by a generation of cheap money. Missing thirty best days turned average returns negative, so patient investors dollar-cost average and revisit in decades. This is context, not advice.